

Message Text

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ACTION SS-25

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C O N F I D E N T I A L MADRID 00460

EXDIS

E.O. 11652: XGDS-1
TAGS: ECON,SP
SUBJECT: CONVERSATION WITH PRIME MINISTER SUAREZ:
V: ECONOMIC SITUATION

1. WHEN I LUNCHEDED WITH PRIME MINISTER SUAREZ
JANUARY 18 (SEPTELS), WE UNFORTUNATELY DID NOT HAVE
SUFFICIENT TIME TO DISCUSS THE ECONOMIC SITUATION
IN ANY GREAT DEPTH. HOWEVER, I DID ASK SUAREZ HOW
HE VIEWED THE ECONOMIC SITUATION AND WHETHER THE
GOVERNMENT HAD ANY PLANS FOR A STABILIZATION PROGRAM.

2. SUAREZ SAID THAT THE GOVERNMENT WAS DRAWING UP
CERTAIN MEASURES AT THIS TIME WHICH WOULD BE INTRO-
DUCED SHORTLY AND WHICH WOULD HAVE SHORT-RANGE
EFFECTS GOING INTO 1978. HE WAS NOT SPECIFIC ON
WHAT THESE MEASURES WOULD BE BEYOND IMPLYING THAT
THEY WOULD BE AIMED AT CREATING A CERTAIN NUMBER
OF JOBS. HOWEVER, HE MADE CLEAR THAT HE DID NOT
INTEND TO INTRODUCE A MAJOR STABILIZATION PROGRAM
FOR IF HE DID, THIS WOULD MEAN A FURTHER LOSS OF
JOBS WHICH WOULD NOT BE TOLERABLE CONSIDERING THE
PRESENT RATE OF UNEMPLOYMENT. MOREOVER, SUCH A
PROGRAM WOULD REQUIRE THE SUPPORT OF PARTIES OF THE
LEFT OR, PUT IN OTHER WORDS, A LEFT-ORIENTED
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CONFIDENTIAL

PAGE 02 MADRID 00460 192338Z

GOVERNMENT. THIS WAS NOT ACCEPTABLE IN THE PRESENT
JUNCTURE. HE SAID HE WAS NOT PERSUADED THAT
SPAIN WAS IN A PERIOD OF INFLATION ALONE BECAUSE
THERE WERE ALSO PRESENT CERTAIN (UNSPECIFIED) DE-
FLATIONARY PRESSURES. RATHER, HE WOULD DESCRIBE THE
SITUATION AS "STAGFLATION". MOREOVER, THE PRESENT
STATISTICS SHOWING OVER 19 PERCENT INFLATION WERE

INACCURATE BECAUSE THE INDEX ON WHICH COST-OF-LIVING WAS CALCULATED WAS OUT-OF-DATE, BUT WAS POLITICALLY TOO DIFFICULT TO CHANGE. HE BELIEVED THAT WHAT WAS NOW REQUIRED WAS SUPPORT FROM SPAIN'S FRIENDS FOR AN IMF PROGRAM WHICH WOULD HELP FINANCE SPAIN'S BALANCE OF PAYMENTS DEFICIT, SUPPORT ITS RESERVES AND HELP TO STRENGTHEN THE PESETA. HE EXPRESSED THE HOPE THAT THE US WOULD BE WILLING TO GIVE ITS SUPPORT TO SPAIN ON ITS ECONOMIC PROBLEMS.

3. I TOLD SUAREZ THAT I WAS INTERESTED BY HIS OBSERVATIONS BUT POINTED OUT THAT THERE WERE A GOOD MANY ECONOMISTS WHO DIFFERED WITH HIM WITH RESPECT TO THE PRESENT SITUATION AND THE REMEDIES WHICH ARE NEEDED. I NOTED, FOR EXAMPLE, THAT IN SPITE OF GOVERNMENT POLICY ON WAGES (I.E., COST-OF-LIVING PLUS 3 POINT), THE SETTLEMENTS BEING MADE WENT WAY BEYOND THIS FIGURE. SUAREZ SPOKE SHARPLY ABOUT THE IMPOSSIBILITY OF REACHING ANY AGREEMENT WITH BUSINESS ENTERPRISES ON THIS PROBLEM. AT THEIR REQUEST HE HAD AGREED TO HOLD THE LINE OF WAGE INCREASES AT COST-OF-LIVING PLUS THREE POINTS. AND YET BUSINESS HAD UNIFORMLY EXCEEDED THE GUIDELINES. HE HAD ALSO AGREED TO SUSPEND ARTICLE 35 OF THE LABOR RELATIONS LAW DEALING WITH LABOR DISMISSALS BUT BUSINESS HAD NOT TAKEN ADVANTAGE OF THIS. IT WAS CLEAR THAT BUSINESS AS A WHOLE DID NOT KNOW WHAT IT WANTED, AND HE WAS NOT PREPARED TO TRY TO DEAL INDIVIDUALLY WITH BUSINESS

CONFIDENTIAL

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PAGE 03 MADRID 00460 192338Z

ENTERPRISES.

4. I TOLD SUAREZ THAT THE US WOULD BE WORKING CLOSELY WITH THE MAJOR WESTERN INDUSTRIAL COUNTRIES IN THE WEEKS AHEAD IN EFFORTS TO REACTIVATE AND IMPROVE THE WORLD ECONOMIC SITUATION. OUR ABILITY TO ASSIST INDIVIDUAL COUNTRIES BILATERALLY WAS SHARPLY LIMITED AND I DID NOT- THINK SPAIN SHOULD LOOK IN THIS DIRECTION.

5. SUAREZ SAID HE UNDERSTOOD THIS BUT DID ASK FOR OUR SUPPORT IN ANY REQUEST SPAIN MIGHT MAKE TO THE IMF FOR ASSISTANCE. STABLER

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